

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2148-01
Bill No.: HB 1023
Subject: Tobacco Products; Taxation and Revenue - Sales and Use
Type: Original
Date: April 20, 2011

Bill Summary: Would increase the excise tax on cigarettes from 17 cents to 98 cents per pack of 20 cigarettes upon voter approval.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0 or (More than \$7,000,000) to Less than \$294,900,000	\$0 or \$362,300,000	\$0 or \$362,300,000
Total Estimated Net Effect on General Revenue Fund	\$0 or (More than \$7,000,000 to Less than \$294,900,000	\$0 or \$362,300,000	\$0 or \$362,300,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would increase the levy on cigarettes from 8 ½ mills to 49 mills per cigarette. The revenue generated by the additional 40 ½ mills tax imposed under this section, less any three percent reduction allowed for DOR collection costs, would be distributed:

- * 30% to the Department of Elementary and Secondary Education,
- * 20% to the Department of Higher Education,
- * 15% for capital improvements to and repair and maintenance of state buildings, and payments on any bonds issued for such capital improvements,
- * 10% to the Department of Public Safety,
- * 5% to the Department of Health and Senior Services, and
- * 5% to the Department of Mental Health.
- * The remaining 15% would be deposited in General Revenue.

DOR officials stated there were 550 million stamps sold during fiscal year 2010; therefore, the increase would generate approximately \$445 million per year of General Revenue. The Department is unable to determine if the increase in tax would contribute to a loss of sales, or if there would be decreased revenue from stockpiling product in advance of the increase. DOR officials assume they would need to notify approximately 120 cigarette wholesales of the rate increase. (120 First Class mailings - approximately \$60) DOR officials also noted that the notification cost does not include retailers, as Taxation is not sure how all retailers would be reached as they are not required to be licensed. This legislation could present an opportunity for big retailers to attempt stockpiling product to try and reap a windfall when the tax rate changes.

Oversight assumes that any DOR cost to implement the proposal would be minimal and could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are enacted which increase DOR costs, resources could be requested through the budget process.

Officials from the **Department of Public Safety, Division of Alcohol and Tobacco Control** assume there would be no fiscal impact to their organization from this proposal.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** assume the proposed legislation would not result in additional costs or savings to their organization.

BAP officials stated that the proposal would increase the cigarette tax from 8.5 mills per cigarette (\$0.17 per pack) to 49 mills per cigarette (\$0.98 per pack.), subject to voter approval. The new revenues would be deposited into the General Revenue or earmarked for specific agencies. BAP calculated the impact of the tax increase by estimating the quantity of packs currently sold, applying the midpoint formula for elasticity to estimate the new quantity of packs, then calculating increased revenues.

BAP officials noted that the federal Centers for Disease Control and Prevention (CDC) had estimated a 4% reduction in sales for each 10% increase in cigarette cost. BAP also cited research which indicated that increased prices would result in revenue losses due to cross-border and internet sales, and BAP assumed those factors would result in an additional 4% sales reduction for each 10% increase in price.

BAP officials assumed the current retail price of cigarette pack is $(\$3.83 + 0.17 \text{ tax}) = \4 and calculated an estimate of additional revenue of \$362.3 million per year.

Oversight will use the BAP estimate. Since the proposal would become effective August 28, 2011, the impact for FY 2012 would be less than an amount equal to approximately 10/12 of the impact for a full year, or less than \$301.9 million.

Oversight also notes that sales of cigarettes and other tobacco products could be influenced by factors other than the rate of state taxation, and that projections based on past activity may not be an indication of future activity. Since the proposed allocations of additional revenue are for programs currently supported by the General Revenue Fund, Oversight will include all of the additional tax collections in the General Revenue Fund.

ASSUMPTION (continued)

The proposed tax increase would be subject to voter approval, and **Oversight** has reflected in this fiscal note the potential cost to the state for reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2012. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in February 2012 (FY 2012). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2012.

To estimate the expense the state would incur for reimbursing local political subdivisions for a special election, Oversight requested expense estimates from all election authorities for an election. Eighty-six out of the one hundred fifteen election authorities responded to Oversight's request. From these respondents; the total election expense that would have to be reimbursed by the state government is over \$7 million. Therefore, Oversight will reflect a potential cost for the state General Revenue Fund in FY 2012 of over \$7 million for reimbursement to the local political subdivisions. Oversight assumes the Governor could call for a special election to be held prior to February 2012 regarding this joint resolution; however, if a special election is not called, the subject will be voted on at the general election in November, 2012.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Election cost</u> - proposal subject to voter approval	<u>\$0 or (More than \$7,000,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Additional revenue</u> - cigarette tax increase	<u>\$0 or Less than \$301,900,000</u>	<u>\$0 or \$362,300,000</u>	<u>\$0 or \$362,300,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (More than \$7,000,000) to Less than \$294,900,000</u>	<u>\$0 or \$362,300,000</u>	<u>\$0 or \$362,300,000</u>

FISCAL IMPACT - Local Government

FY 2012
(10 Mo.)

FY 2013

FY 2014

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would increase the excise tax on cigarettes from 17 cents to 98 cents per pack of 20 cigarettes upon voter approval.

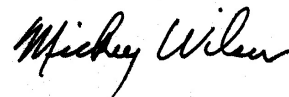
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Public Safety
division of Alcohol and Tobacco Control

NOT RESPONDING

Office of Administration
Division of Budget and Planning



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Director
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